

# the Southwest ECONOMY

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## Texas: *Demographically Different*

As the 21st century nears, demographic changes are reshaping the U.S. economy. The largest impact is coming from the maturing of baby boomers who began turning 50 this January. Just behind the boomers is the baby bust generation, which makes up a much smaller share of the total population. As the boomers and busters move through their life cycles, many elements of the economy—such as housing, unemployment, labor productivity and capital formation—will be affected.

Texas, like the nation, will be influenced as this demographic transition unfolds. Nevertheless, the Texas population historically has been somewhat different from that of the nation. In the past, the Texas population has grown faster than the national average. In addition, Texas is more ethnically diverse and younger than most other states. These differences may benefit Texas

in the years to come. The challenge is to make the differences work for Texas and not against it.

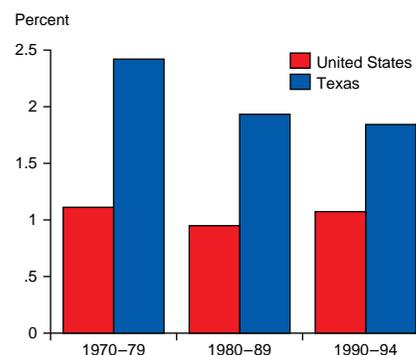
### Texas: Big in Every Way

Historically, Texas' population has grown faster than the nation's. This was especially true during the boom days of the 1970s, when the state's population rose at more than two times the national rate (*Chart 1*). From 1980 to 1989, the state's average annual population growth of 1.9 percent was slower than in the preceding decade but still double that of the nation.

In the 1990s, Texas' population has continued to grow faster than the national average, and in 1994, Texas edged out New York as the second largest state in the country, behind California. Texas' population should continue to grow faster than its national counterpart, although it will follow a national trend of slower growth. Census projections indicate that through the year 2010, Texas' population will grow at an average annual rate of about 1.5 percent, while the U.S. population will grow at an annual rate of about 1 percent.<sup>1</sup>

Two main factors explain why Texas' population growth historically has outpaced the nation's: higher than average birth rates and

**Chart 1**  
Average Annual Population Growth Rate



SOURCE: U.S. Department of Commerce, Bureau of the Census.

high net migration—the number of people moving to Texas from other states or from other countries minus the number leaving.

While both national and Texas birth rates have fallen since the baby boom years, Texas' birth rate has stayed consistently higher than the national average. In 1992, for example, the Texas birth rate was 18.1 per thousand people, compared with the national average of 15.9 per thousand. The high Texas birth rate may be partly a result of the state's rich Hispanic heritage. High rates of immigration from Mexico and South America, where

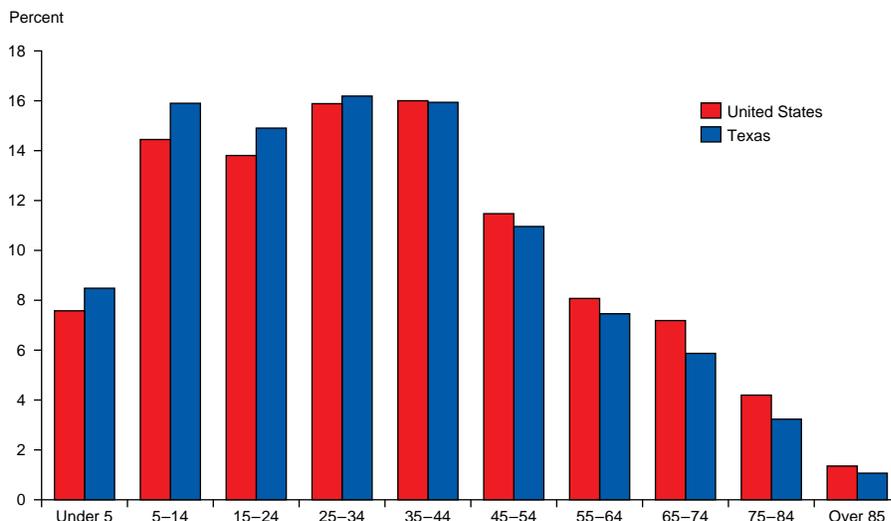
I N S I D E

Honest Money  
Is the Best Policy

—  
What's Behind Those  
Yen-Dollar Swings?

*“Not only is Texas’ population younger than average, it is also more diverse. The Texas population has a much higher share of racial and ethnic minorities than the U.S. population in general, mostly due to the state’s historical ties to Mexico.”*

**Chart 2**  
1994 Age Distribution: Texas and the United States



SOURCE: U.S. Department of Commerce, Bureau of the Census.

birth rates are higher than they are in the United States, have kept Texas’ birth rate higher than average. However, over the long run, U.S. Hispanic birth rates have been converging toward the rates for non-Hispanic whites.

In addition to high birth rates, net migration has played a large part in the state’s strong population growth. Historically, people have been drawn to Texas because of its abundant natural resources. In more recent years, people have been drawn to the state because of its healthy economy and other economic factors that make it an attractive place to live and do business.

During the oil boom of the 1970s and early 1980s, net migration accounted for an unusually large portion of the state’s population growth. In 1982—a year in which the Texas population grew a robust 4 percent—the total increase in the population was 586,000 people, and almost 70 percent of the increase resulted from net migration.<sup>2</sup> In the early 1980s, when the national economy turned downward, Texas drew more new residents than any other state.<sup>3</sup> However, the statewide downturn that began in 1986 caused Texas to lose many of its new residents. From 1987 through 1989, 305,134 people left the state

to look for greener pastures elsewhere, resulting in anemic population growth.

In 1990 the exodus stopped and people began returning to the state, drawn by Texas’ improving economy. Since 1990, net migration has accounted for roughly 40 percent of the state’s population increase, a lower percentage than that of the 1970s but higher than the migration experienced in the 1980s overall. While net migration to the Lone Star State is expected to be positive, it may be less of a contributor to state population growth in coming years than it has been in the 1990s, according to forecasts by the Census Bureau and Texas Comptroller of Public Accounts. Census Bureau projections indicate that net migration will account for roughly 30 percent of Texas’ population increase through 2010, close to the historical state average since 1950.

### **Differences in Age Structure And Diversity**

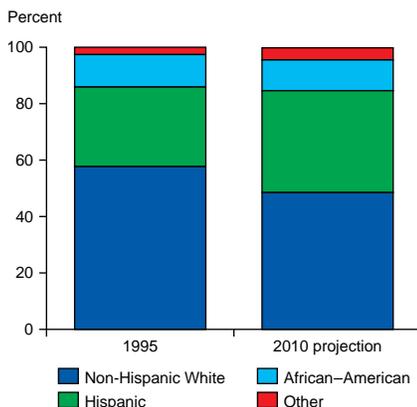
Both of the factors that contribute to Texas’ fast-growing population—a high birth rate and a high percentage of net migration—keep the Texas population younger than the national average. High birth rates boost the state’s share of

people in younger age brackets, and studies show that most people who move to Texas from other states or countries are young adults.

In 1994, Texas was the third youngest state in the country, behind Utah and Alaska. The median age in Texas was 31.9 years, compared with a national median of 34 years. Texas' younger population is especially evident when we look at the distribution of the population by age group. As Chart 2 shows, Texas has higher than average percentages of its population in the younger age brackets and smaller than average percentages in the age brackets 35 and above.<sup>4</sup>

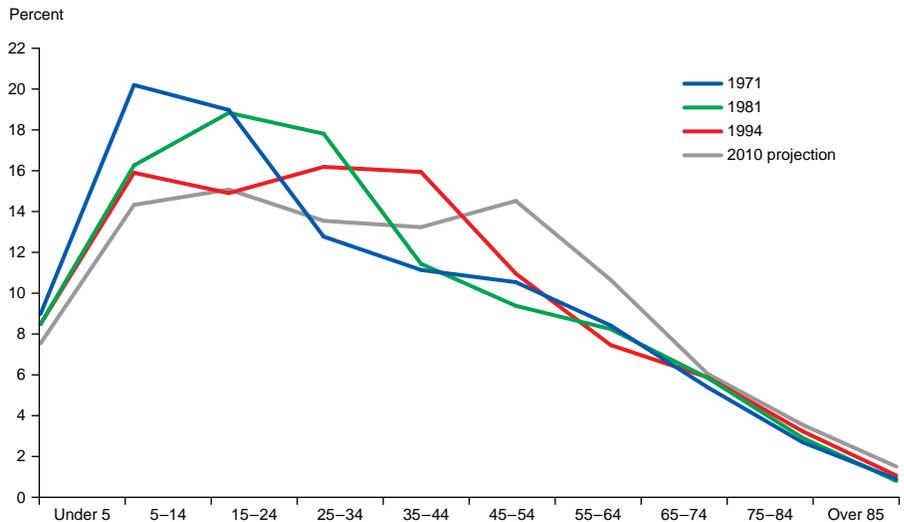
Not only is Texas' population younger than average, it is also more diverse. The Texas population has a much higher share of racial and ethnic minorities than the U.S. population in general, mostly due to the state's historical ties to Mexico. In 1995, 58 percent of Texans were non-Hispanic whites, which compares with 74 percent of the U.S. population. While the percentage of African-American Texans is about even with the national average of 13 percent, Texas' Hispanic population accounts for 28 percent of the total population, much larger than the national average of 10 percent. In fact, in 1995 Texas ranked second among the states in its share

**Chart 3**  
Proportion of Texas Residents by Race and Ethnicity



SOURCE: Texas State Data Center, Texas A&M University.

**Chart 4**  
Age Distribution of the Texas Population in Selected Years



SOURCE: U.S. Department of Commerce, Bureau of the Census.

of Hispanic population, behind New Mexico.

The trend toward diversity should continue into the next century. The Hispanic share of the population is expected to continue growing rapidly and by 2010 should reach 36 percent. In addition, the share of Asian-American Texans is expected to rise at a fast pace. In 15 years, the "minority" populations are expected to constitute the majority of Texans (*Chart 3*).<sup>5</sup>

### Despite Its Differences, Texas Will Follow the Aging Trend

Despite being younger than the national average, Texas' overall population will age along with the national population. This "aging" of the population is a result of the maturing of the baby boom generation, which makes up the largest segment of the population. Chart 4 shows the movement of the baby boom generation through time and its effect on the age distribution in Texas. As the chart indicates, in 1971 the boomers were swelling the ranks of the 5-14 and 15-24 age brackets, causing the age distribution to be skewed toward those younger age groups. Ten years later, the baby boomers had caused an increase in the share of the

population aged 25-34, the ages most associated with household formation and entry-level home demand. By the mid-1990s, many of the boomers had moved into the 35-44 age bracket, and the share of the population in that age bracket rose substantially.

By 2010 a large share of Texans will be in their prime working years, and the age distribution will shift further to the right. As the first of the baby boomers come within an arm's reach of retirement that year, an estimated 22 percent of Texans will be 55 or older, compared with 17 percent today. Still, Texas' share of those 55 or older should be below the projected national average of 25 percent.

### How Will U.S. Demographic Trends Shape the Future?

As the bulk of the population continues its move into the prime working years and then on into retirement, it will have a broad impact on the economy. Although it is difficult—and dangerous—to try to predict the future, the changes that will occur in the age distribution of the population have implications for some segments of the economy.

**Housing.** First, the demographic shift is expected to have a signifi-

cant impact on the U.S. homebuilding industry. In the coming years, a decline in the number of households headed by people ages 25 to 34 should cause a shift away from starter homes toward trade-up homes and specialized homes for older adults. As a result, residential construction will no longer be driven by the first-time buyer and builders will have to focus on “resizers.” In addition, prices of starter homes and homes for families with young children may weaken, while prices of homes that are popular with older adults, or empty-nesters, may increase.

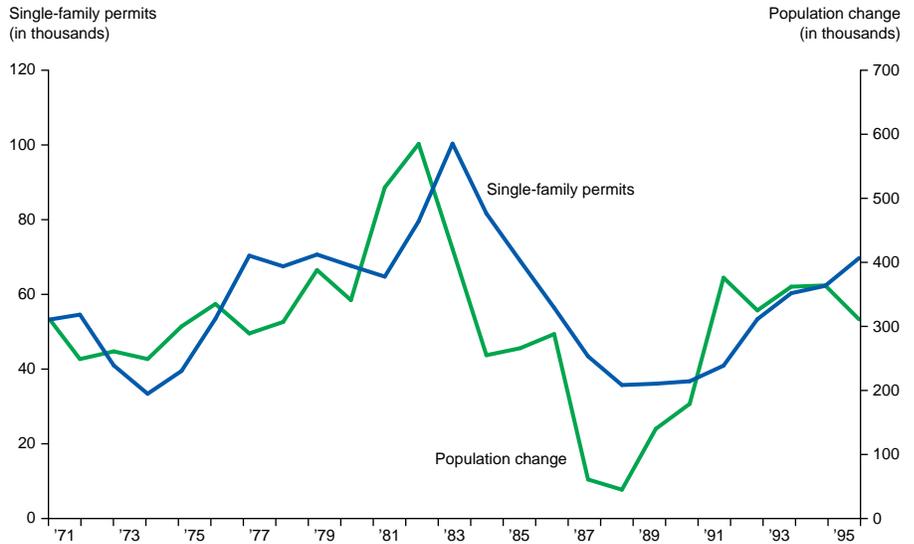
The purely demographic effect of the changing age distribution suggests a potential slowdown in the growth of the residential construction industry.<sup>6</sup> Nevertheless, increases in immigration levels or a pickup in construction due to home remodeling by aging baby boomers could keep residential construction on its current path.<sup>7</sup>

**Labor Market.** When baby boomers entered the working world, their sheer numbers caused them to have a substantial impact on the U.S. labor market. The young-adult labor force grew rapidly during the late 1960s and 1970s, and because baby boomers were at the age when frequent entries into and exits from the labor force are more common, they exerted upward pressure on the national unemployment rate.

In the 1980s, the proportion of young people in the labor force shrank steadily, and eventually this reversal of demographic trends applied downward pressure on the unemployment rate (excluding increases during the 1980 and 1981–82 recessions). The 1980s closed with an unemployment rate of 5.3 percent, half a percentage point below its level a decade earlier.<sup>8</sup>

During the 1990s and beyond, much of the increase in the working-age population will be concentrated in the 35 to 64 age group. People in this group have exhibited high rates of labor force participation

**Chart 5**  
Texas Population Growth and Housing Construction



SOURCE: U.S. Department of Commerce, Bureau of the Census.

and low rates of unemployment, implying continued downward pressure on the unemployment rate. Also, people in this age group are near their most productive years, which could boost labor force productivity.

In the coming years, labor force growth is expected to slow along with the rate of population growth. This could be good for the baby bust generation, those people now 20 to 31 years old. Because busters constitute a smaller than normal generation, employers may have to pay a premium for good, highly skilled entry-level workers. In addition, as labor becomes more scarce, businesses may become more innovative, creating labor saving technology that would boost productivity growth.

**Other Implications.** Demographic trends will affect many other segments of the economy as well. As the baby boomers near retirement, they may save more, thereby boosting the national savings rate. In fact, some researchers have suggested that the run-up in the stock market in the past few years may be due to the aging boomers’ rush to prepare for their golden years. The consensus on this view is mixed, and there is a downside as well.

As boomers begin retiring, the savings rate could begin to decline and stock values could fall.<sup>9</sup> Other researchers predict that as the boomers retire, not only will savings rates decline, but the smaller workforce will mean less need for the accumulation of capital—such as factories and machines.<sup>10</sup>

While the baby boomers won’t begin retiring in large numbers until the year 2011, already there is growing concern about the financing of government spending programs for the elderly, like Medicare and Social Security. An aging population means that health care and retirement will consume a larger share of government spending. With a smaller proportion of working-age Americans supporting a larger number of elderly, this suggests higher tax burdens for future workers.<sup>11</sup>

### Do Texas’ Differences Matter?

Despite its different demographic characteristics, Texas will follow national trends for the most part in the coming years. Although the state has a younger and faster growing population than the nation, its rate of population growth will slow and its population will become older.

Nevertheless, there are some areas in which Texas may be affected differently from the nation because of its unique demographic trends. These areas include housing, retail sales and labor force growth.

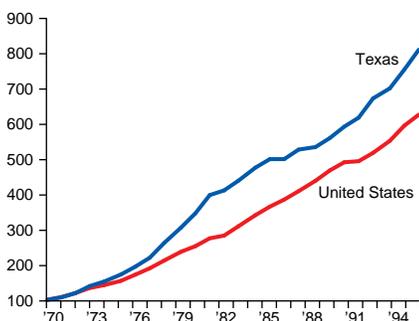
First, as Chart 5 shows, Texas housing construction follows changes in population to a large extent, but with a lag. The expectation that Texas' population growth will slow suggests slower growth in residential construction. However, the state's demographic characteristics suggest that the population-induced slowdown in housing demand will be less evident in Texas than in the nation as a whole.

Housing construction in Texas should be bolstered by the state's younger population. Through the year 2010, the number of people in the 25–34 age group is expected to fall more than 7 percent in the United States. In contrast, the number of Texans aged 25–34 is expected to increase by about 4 percent over the same period. It is precisely this age group that is responsible for start-up housing demand, the segment that will be most negatively affected at the national level.

Second, Texas' faster than average rate of population increase should draw retailers and other consumer-oriented businesses to the state. Chart 6 shows that retail sales have grown faster in Texas than in the nation since 1970, a trend that is likely to continue because of the

**Chart 6**  
U.S. and Texas Retail Sales

Index, 1970 = 100



SOURCE: U.S. Department of Commerce, Bureau of the Census.

state's demographic characteristics.

Finally, Texas labor force growth should be affected as population growth slows and the population becomes older. With fewer workers entering the labor force and a larger share of Texans at their most productive working ages, we could see a slowdown in labor force growth coupled with an increase in productivity in the next 10 to 15 years. Still, Texas is likely to have a larger than average share of young workers to draw from because of its younger age distribution, meaning labor force growth should remain higher than the national average. This would be a positive factor for Texas businesses in areas with tight labor markets, making it less difficult to fill entry-level positions.

Because of Texas' growing diversity, minorities represent the largest segment of new entrants into the labor force, a trend that will continue. Unfortunately, minorities are more likely to drop out of school; therefore, they may lack some necessary skills for labor-market entry. While improving in recent years, the 1993–94 cumulative dropout rate for grades 7 through 12 was 21.1 percent for Hispanic students and 17.8 percent for African-American students, compared with a rate of about 9 percent for non-Hispanic whites and Asian-Americans.<sup>12</sup>

Because of the high dropout rates for minority Texans, they are less likely to obtain the necessary education for high-skill, high-wage positions. Thus, it may be harder for employers to recruit them into the technology-based entry-level positions of the future. And if the labor pool does not have the right job skills, the Texas economy will not be able to grow at its potential. A challenge for Texas will be to train and educate these young Texans and successfully assimilate them into the state's increasingly diverse labor force.

—D'Ann M. Petersen

## Notes

- <sup>1</sup> U.S. and Texas population estimates and forecasts are from the U.S. Department of Commerce, Bureau of the Census.
- <sup>2</sup> Historical migration estimates were obtained from John Sharp, Texas Comptroller of Public Accounts.
- <sup>3</sup> Early 1980s refers to 1980 through 1983.
- <sup>4</sup> A big question mark in Texas' population picture is the number of undocumented immigrants not included in census statistics. A Census Bureau study estimates that in 1994, 300,000 to 427,000 undocumented immigrants lived in Texas. These undocumented immigrants not only add to the total population figures but are likely to have demographic characteristics similar to other immigrants that would contribute to a younger population.
- <sup>5</sup> Projections of the proportion of Texas residents by race and ethnicity are from the Texas State Data Center at Texas A&M University in College Station.
- <sup>6</sup> See Kent Hill and D'Ann Petersen, "Demographics and the Long-Term Outlook for Housing Investment," *Economic Review*, Federal Reserve Bank of Dallas, First Quarter 1994.
- <sup>7</sup> See Paul Emrath, "Immigration and Housing Demand," *Housing Economics*, March 1994, for an explanation of how future immigration is likely to affect U.S. housing demand.
- <sup>8</sup> The information regarding the baby boom's impact on the unemployment rate comes from "Population Changes, the Baby Boom, and the Unemployment Rate," *Monthly Labor Review*, August 1990.
- <sup>9</sup> See "The Year Is 2010. Do You Know Where Your Bull Is?" *New York Times*, March 10, 1996.
- <sup>10</sup> See Alan J. Auerbach and Laurence J. Kotlikoff, "The Impact of the Demographic Transition on Capital Formation," *Scandinavian Journal of Economics*, (94), 1992.
- <sup>11</sup> For an explanation of how immigration might affect the U.S. age structure, thereby offsetting the increased fiscal burden of an aging population, see Kjetil Storesletten, "The Economics of Immigration," graduate dissertation, the Graduate School of Industrial Administration at Carnegie Mellon University, May 1995.
- <sup>12</sup> Texas Education Agency, *1993–94 Texas Public School Dropout Report*, September 1995.